

1001

NEW BUSINESS CAPITAL FOR MONTANA

Briefing to Montana Legislators

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Presented by:

MONTANA GROWTH CAPITAL

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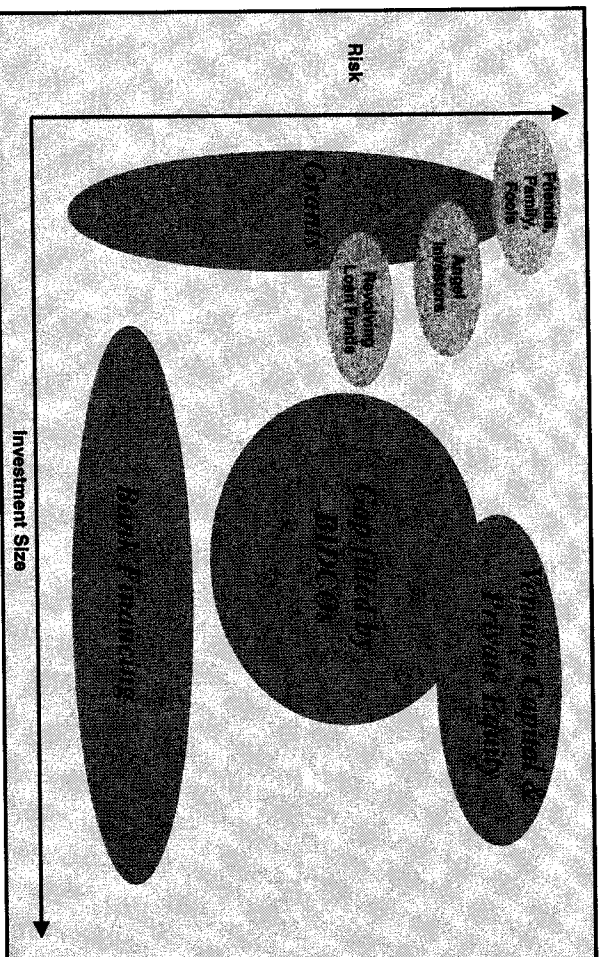
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Overview of BIDCO Industry

- Legislated by 7 states as tool for economic development
- State-chartered private lending institutions
 - “Non-bank banks” - not competitive with banks; no deposits
 - For-profit orientation
 - Help businesses that conventional lenders consider too risky but do not exhibit the high-growth potential required by venture capitalists
- Formal BIDCO legislation utilized to prevent fraud, mismanagement, and conflicts of interest
- Regulation by state qualifies BIDCO as “regulated lender” for government guaranteed lending programs

Montanans need access to “risk capital”

- General consensus: *new* outside capital has large impact
- CS First Boston study identified \$81.6mm shortfall
- Current MGC deal pipeline over \$40 million (and growing)
- MGC business model “imports” new capital from Wall Street



Summary of Typical BIDCO Legislation

- Affirmation of economic development focus
- Minimum qualifications for BIDCO licensees
 - Adequate net worth
 - Management capability
- Assignment of oversight responsibility
- Definition of oversight requirements
- Restrictions on conflicts of interest
- Restrictions on allowable business practices

Case Study: The Alaska Experience

- 1993:
 - Legislature adopts BIDCO statute. No BIDCOs established
- 1996:
 - Legislature appropriates \$3 million BIDCO incentive, to be matched by private capital
 - Competitive RFP issued
- 1997
 - Alaska Growth Capital wins competition / begins operations

Alaska Growth Capital: Matching Non-traditional Borrowers with “New” Capital

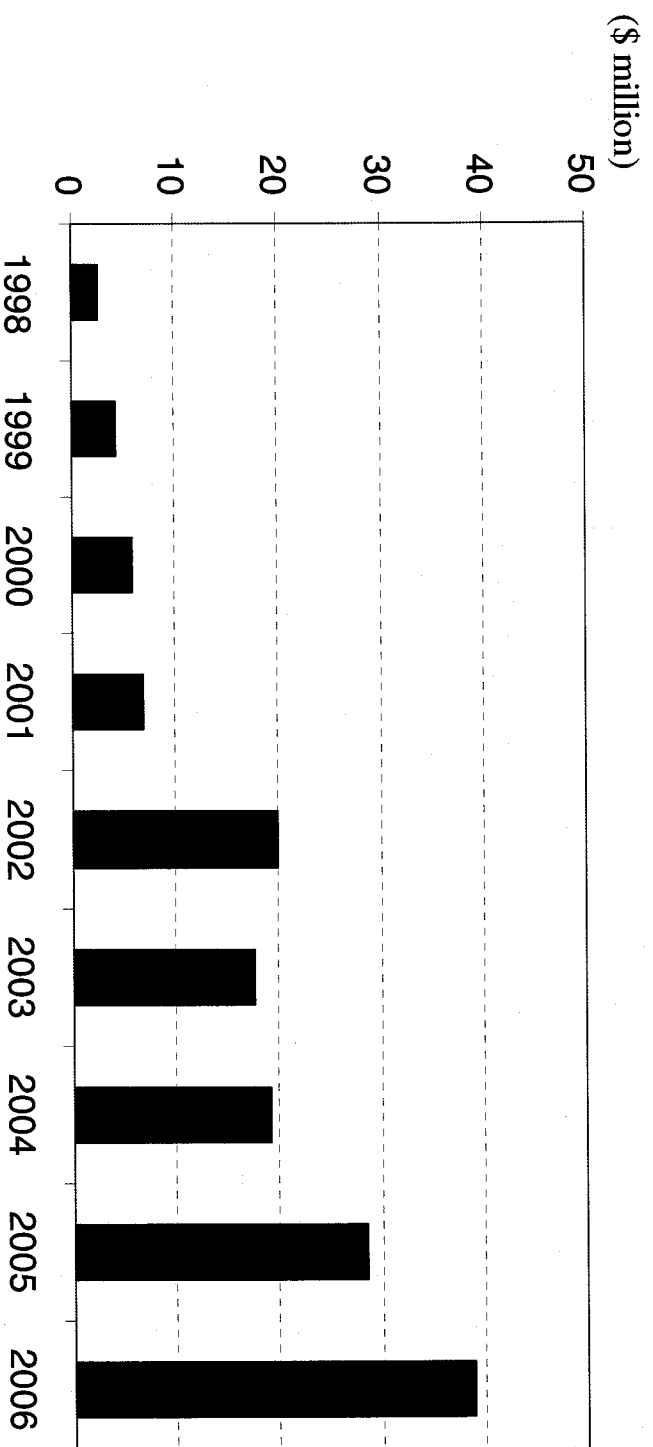
Niche:

- Products – business loans, venture capital, consulting
- Markets – rural, “distressed”, minority-owned, start-ups, etc.

Results:

- \$100mm “imported” to Alaska from outside sources
 - Bond market investors, insurance companies, hedge funds
- More than \$140mm invested in 120+ companies
 - 54% in remote rural areas
 - 34% in minority-owned businesses
 - 33% in “most economically distressed” areas
 - 12% in start-ups

Alaska Growth Capital Investments-to-Date



Public-Private Partnership

AGC Capitalization History

	1997	1998	2000	2001	2002	2003	2004	TOTAL	
State of Alaska	3,000,000							3,000,000	16%
ASRC equity	1,041,745	2,017,028		2,000,000	1,352,488	975,000		5,386,261	30%
U. S. Treasury		1,000,000			1,526,000			4,526,000	25%
Denali Commission			824,000	1,500,000	1,500,000	1,000,000	500,000	5,324,000	29%
TOTAL	1,041,745	3,017,028	824,000	3,500,000	4,378,488	1,975,000	500,000	18,236,261	100%

Detail of investment by State of Alaska

- \$3mm low interest loan
- Converted to permanent grant after milestones met
 - Payroll growth at client companies
 - Revenue growth at client companies
- Encouraged follow-on investments from others
- See handout for detail on structure

Montana Growth Capital: Successes to-date

- Four-year partnerships with TechRanch and TechLink
 - Alaska-based client buying from S&K Technologies
 - Alaska-based client partnering with Synesis7 (Butte)
- Strong Advisory Board
- Warm welcome from bankers, economic developers
- Active investments
 - \$7.5 million to AK grocer expanding to Butte (85 new jobs, low income area)
 - \$1.0 million to Browning non-profit (low income area, minority owners)
 - \$1.0 million to Yaak start-up (low income area)
 - \$900,000 for Plentywood/Scobey buy-out
 - \$800,000 to Superior start-up (low income area, minority owners)
- Seed capital
 - Northwest Area Foundation – \$500,000
 - Calvert Foundation – \$400,000
 - Alaska Growth Capital – “warehouse” credit facility

States with BIDCO Legislation

<u>State</u>	<u>Web Site for Statute</u>
Idaho	http://finance.idaho.gov/Statutes.aspx
Louisiana	http://www.lided.state.la.us/economic-development-allies/business-resources/financial-incentives-/bidco-program-rules.aspx
Tennessee	http://www.state.tn.us/sos/rules/0180/0180.htm
Delaware	http://www.delcode.state.de.us/title5/c033/sc01/index.htm
California	http://www.leginfo.ca.gov/cgi-bin/displaycode?section=fin&group=30001-31000&file=31000-31006
Alaska	http://touchngo.com/glcnt/akstats/Statutes/Title10/Chapter13.htm
Michigan (no active licensees)	http://www.legislature.mi.gov/(S(4zthx55x3ivm4umpg5ofu55))/mileg.aspx?page=getobject&objectname=mcl-act-89-of-1986